China’s Output Growth Volatility - How Important is the Business Cycle?

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Abstract

The existing literature that discusses the volatility or non-trend aspects of China’s output growth during the reform period does so with overwhelming reference to the business cycle. However, the business cycle is only a sub-set of volatility that occurs within a particular frequency band. In this paper we decompose China’s output growth volatility by frequency and find that considerable volatility occurs at lower than business cycle frequencies. This suggests that in order to understand the nature of China’s output growth volatility and its causes it is necessary to move beyond the construct of the business cycle and shocks to aggregate demand.

JEL codes – E32, O40

Key words – Output growth volatility, Business cycles, Spectral Analysis

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